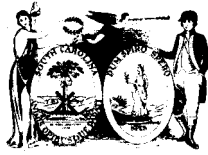


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

April 29, 2002

Mr. Thomas S. Tiller, CFO
Laurel Baye Healthcare, LLC
Post Office Box 2700
Pawleys Island, South Carolina 29585

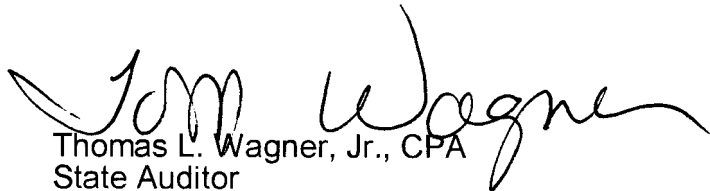
Re: AC# 3-WLS-J9 – Silver Springs Healthcare Center

Dear Mr. Tiller:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**SILVER SPRINGS HEALTHCARE CENTER
WILLISTON, SOUTH CAROLINA**

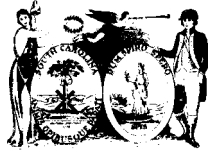
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-WLS-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	11

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 17, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Silver Springs Healthcare Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Silver Springs Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

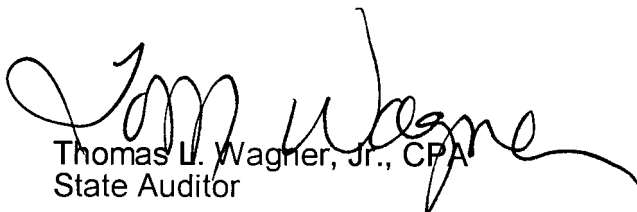
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Silver Springs Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Silver Springs Healthcare Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 17, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

SILVER SPRINGS HEALTHCARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-WLS-J9

	10/01/00- <u>09/30/01</u>
Interim reimbursement rate (1)	\$106.35
Adjusted reimbursement rate	<u>97.96</u>
Decrease in reimbursement rate	\$ <u>8.39</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

SILVER SPRINGS HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-WLS-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.74	\$55.81	
Dietary		11.15	11.39	
Laundry/Housekeeping/Maint.		<u>9.25</u>	<u>8.99</u>	
Subtotal	\$ <u>5.33</u>	60.14	76.19	\$60.14
Administration & Med. Rec.	\$ <u>-</u>	<u>15.08</u>	<u>13.45</u>	<u>13.45</u>
Subtotal		75.22	<u>\$89.64</u>	73.59
<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		.85		.85
Medical Supplies & Oxygen		5.16		5.16
Taxes and Insurance		1.66		1.66
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$85.31</u>		83.68
Inflation Factor (3.20%)				2.68
Cost of Capital				7.85
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.33
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.58)
Nurse Aide Staffing Add-On 10/01/00				.88
Nurse Aide Staffing Add-On 10/01/99				<u>1.12</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$97.96</u>

SILVER SPRINGS HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$ 692,928	\$ -	\$ 2,985 (1) 4,394 (7) 540 (7) 23,917 (10) 5,258 (10) 4,494 (12) 13,470 (13) 2,474 (14)	\$ 635,396
Dietary	183,314	24 (14)	1,841 (7) 529 (8) 2,532 (10) 123 (11)	178,313
Laundry	34,182	-	51 (7)	34,131
Housekeeping	54,761	-	-	54,761
Maintenance	67,146	-	3,000 (7) 4,279 (8) 682 (10) 252 (11)	58,933
Administration & Medical Records	271,870	5,200 (4) 6,881 (9) 13,470 (13) 114 (14)	1,639 (1) 6,646 (3) 575 (7) 603 (7) 197 (8) 237 (10) 620 (10) 44,120 (11) 1,830 (12)	241,068
Utilities	38,915	-	227 (11)	38,688
Special Services	13,513	-	-	13,513

SILVER SPRINGS HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	115,292	6,759 (14) 6,730 (15)	8,406 (1) 20,486 (6) 10,386 (7) 7,077 (14)	82,426
Taxes & Insurance	30,626	-	3,446 (5) 425 (8) 279 (11)	26,476
Legal Fees	-	-	-	-
Cost of Capital	125,711	577 (11)	667 (2) 15 (16) 65 (17)	125,541
Subtotal	1,628,258	39,755	178,767	1,489,246
Ancillary	13,151	-	-	13,151
Non-Allowable	108,509	13,030 (1) 667 (2) 6,646 (3) 3,446 (5) 20,486 (6) 21,390 (7) 5,430 (8) 33,246 (10) 44,424 (11) 2,654 (14) 15 (16) 65 (17)	5,200 (4) 6,881 (9) 6,730 (15)	241,197
Total Operating Expenses	<u>\$1,749,918</u>	<u>\$191,254</u>	<u>\$197,578</u>	<u>\$1,743,594</u>
Total Patient Days	<u>15,730</u>	<u>257 (18)</u>	<u>-</u>	<u>15,987</u>

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 13,030	
	Restorative		\$ 2,985
	Administration		1,639
	Medical Supplies & Oxygen		8,406
	To reconcile the trial balance to the general ledger HIM-15-1, Section 2304		
2	Other Equity	8,190	
	Accumulated Depreciation	16,054	
	Nonallowable	667	
	Cost of Capital		667
	Fixed Assets		24,244
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	6,646	
	Administration		6,646
	To remove expense not adequately documented and disallow interest expense on unnecessary debt HIM-15-1, Sections 2304 and 202.1		
4	Prepaid Loan Cost	4,767	
	Administration	5,200	
	Other Equity		4,767
	Nonallowable		5,200
	To record loan cost amortization HIM-15-1, Sections 202.4 and 202.5		
5	Nonallowable	3,446	
	Taxes, Insurance, & Licenses		3,446
	To adjust general and liability insurance HIM-15-1, Sections 2302.1 and 2304		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Medical Supplies & Oxygen	20,486	20,486
	To adjust specialty bed expense State Plan, Attachment 4.19D		
7	Nonallowable	21,390	
	Nursing		4,394
	Restorative		540
	Dietary		1,841
	Laundry		51
	Maintenance		3,000
	Administration		575
	Medical Records		603
	Medical Supplies & Oxygen		10,386
	To remove expense not adequately documented HIM-15-1, Section 2304		
8	Nonallowable	5,430	
	Dietary		529
	Maintenance		4,279
	Administration		197
	Taxes, Insurance, & Licenses		425
	To disallow expense not adequately documented HIM-15-1, Section 2304		
9	Administration Nonallowable	6,881	6,881
	To carry forward allocation of Administration salaries to MDB to reflect 10/01/98 - 1/31/99 HIM-15-1, Section 2304		
10	Nonallowable	33,246	
	Nursing		23,917
	Restorative		5,258
	Dietary		2,532
	Maintenance		682
	Administration		237
	Medical Records		620
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	44,424	
	Cost of Capital	577	
	Dietary		123
	Maintenance		252
	Administration		44,120
	Utilities		227
	Taxes, Insurance, & Licenses		279
	To adjust home office cost		
	HIM-15-1, Sections 2304 and 2150.3		
12	Accrued Vacation	6,324	
	Nursing		4,494
	Administration		1,830
	To remove accrued vacation due to the		
	provider's vacation policy		
	HIM-15-1, Sections 2304 and 2144.8		
13	Administration	13,470	
	Restorative		13,470
	To properly classify admissions salary		
	DH&HS Expense Checklist		
14	Dietary	24	
	Administration	114	
	Medical Supplies & Oxygen -		
	Nursing Supplies	6,759	
	Nonallowable	2,654	
	Nursing		2,474
	Medical Supplies & Oxygen -		
	Medical Supplies		7,077
	To reclassify expenses to the proper		
	cost centers and to adjust Laurel Baye		
	Medical expense to related party cost		
	DH&HS Expense Checklist		
	HIM-15-1, Section 1000		
15	Medical Supplies & Oxygen	6,730	
	Nonallowable		6,730
	To remove special (ancillary) services		
	reimbursed by Medicare		
	State Plan, Attachment 4.19D		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
16	Nonallowable Cost of Capital	15	15
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
17	Nonallowable Cost of Capital	65	65
	To adjust capital return State Plan, Attachment 4.19D		
18	<u>Memo Adjustment:</u> To increase total patient days by 257 to 15,987 days HIM-15-1, Section 2304		
	TOTAL ADJUSTMENTS	<u>\$226,589</u>	<u>\$226,589</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

SILVER SPRINGS HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-WLS-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>44</u>
Deemed Asset Value	1,591,260
Improvements Since 1981	33,245
Accumulated Depreciation at 9/30/99	<u>(443,319)</u>
Deemed Depreciated Value	1,181,186
Market Rate of Return	<u>.060</u>
Total Annual Return	70,871
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	70,871
Depreciation Expense	54,670
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	125,541
Total Patient Days (Actual)	<u>15,987</u>
Cost of Capital Per Diem	\$ <u><u>7.85</u></u>

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